

**Long-Term Arrearage Management Solutions  
For Rhode Island**

**Docket 3400 Working Group**

**May 2003**

## I. DOCKET 3400 BACKGROUND

After the Winter of 2000-2001, when high natural gas prices led to a record number of residential service terminations, the Rhode Island Public Utilities Commission (“RIPUC” or “PUC”) ordered that a proceeding (Docket 3400) be opened to examine the feasibility of implementing an electric and gas utility arrearage forgiveness plan.<sup>1</sup> Over the past year, representatives from the Rhode Island State Energy Office (“Energy Office”), the Rhode Island Division of Public Utilities and Carriers (“Division”), the George Wiley Center (“GWC”), Coalition for Consumer Justice (“CCJ”), Rhode Island Association of Community Organizations for Reform Now (“ACORN”), Community Action Agencies (“CAAs”) that deliver low-income energy programs, regulated electric and natural gas utilities and the National Consumer Law Center (“NCLC”) (collectively, “Docket 3400 Working Group”, or “Working Group”) have been involved in discussions regarding long-term low-income arrearage management solutions for Rhode Island. An objective of the Working Group is to identify the best means of reducing low-income household energy burdens<sup>2</sup> to an affordable level, while managing and lowering utility system costs associated with credit and collection activities that pertain to low-income customers.

While the Docket 3400 Working Group represents a highly diverse set of organizational interests, participants share a concern about the level of residential customer arrears and uncollectible accounts experienced over the past three years. Indeed, the Working Group has found that the desire to cost-effectively manage low-income credit and collection activities is consistent with support of programming to lower energy burdens in low-income households. In addition, Working Group participants agree that programs and policies intended to lower vulnerable household energy burdens should be designed to minimize administrative and implementation costs, and maximize the proportion of available resources that may be devoted to meeting primary program objectives. After many meetings and revisions to program design proposals<sup>3</sup>, we are pleased to offer the program proposal outlined in this document.

This plan is intended to provide long-term low-income energy security by addressing both current utility arrearages, and the need for sustained, meaningful payment assistance. Clearly, the option may exist to obtain funding to pay off outstanding low-income arrears on a stand-

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<sup>1</sup> On October 12, 2001, the People’s Utility Fairness Coalition filed an emergency motion with the Public Utilities Commission requesting temporary changes to Rhode Island’s Utility Termination Rules. In its January 28, 2002 Order in Docket 1725, the Commission ordered existing termination rules to remain in effect, but accepted a New England Gas proposal to make voluntary changes to its practices regarding reinstatement of service. In addition, the Commission’s Order also established a new proceeding (Docket 3400) to examine the feasibility of implementing an electric and natural gas arrearage forgiveness policy.

<sup>2</sup> The term “energy burden” generally refers to that proportion of household income that is devoted to household energy purposes.

<sup>3</sup> It should be noted here that company and organization representatives of the Working Group spent many hours working on this plan. Each of the group’s members has made major contributions to the proposal outlined here, and each made a strong effort to understand the perspectives of other members. While the current document represents an outline of program design principles upon which Working Group parties were able to reach agreement, parties will submit to the PUC addenda to address related matters where no consensus was reached.

alone basis without other assistance going forward. However, without providing for long-term programming to make utility bills reasonably affordable for low-income households, new arrears will immediately begin to accrue after the existing slate is wiped clean. Accordingly, this plan includes proposals for the following:

- Affordable payments through the implementation of targeted discounts calculated to achieve manageable energy burden levels according to a household's income and consumption levels, and
- Write-down of existing low-income utility arrears.

**The plan that follows is intended to provide arrearage management and targeted discount rate assistance programming solely for Rhode Island LIHEAP participants. The Working Group acknowledges that LIHEAP is not an entitlement program and therefore does not provide benefits to all of the state's income eligible households. Similarly, we acknowledge that funding for the programs outlined herein will ultimately be constrained to some degree, and that a finite proportion of income eligible will be able to participate.** Because of the disparity between those who would be eligible for the program based on income parameters and those would be able to participate because of funding limitations, we believe that any approval of such a program by the Commission would have to include a finding that this condition is not discriminatory. In addition, please note that the plan that follows is not intended to serve as a detailed program operations manual. Rather, the following summary provides broad program parameters for consideration and review by stakeholders and decision-makers in Rhode Island.

## **II. LONG-TERM AFFORDABILITY, ARREARAGE MANAGEMENT AND LOW-INCOME ENERGY SECURITY IN RHODE ISLAND**

### EXISTING AFFORDABILITY PROGRAMS

Rhode Island has a long history of offering low-income consumers programming geared toward lowering the cost of energy and utility service. In fact, Rhode Island was among the first states in the nation to offer a comprehensive “Percentage of Income Payment Plan (PIPP).” Under the Rhode Island PIPP program, income-eligible households’ utility bills were adjusted downward to reflect a payment that was calculated to fall within the parameters of a pre-determined, target household energy burden level. Unfortunately, Rhode Island’s early PIPP program, which was financed entirely through the use of federal Low Income Home Energy Assistance Program (LIHEAP) funds, became unsustainable and was discontinued as LIHEAP appropriations fell by over 33% between 1985 and 1989.

Since the demise of the early PIPP Program, a range of energy affordability and efficiency programs serving low-income customers have been adopted and are currently operative in Rhode Island. Following is a list of state- and federally-funded programs that assist low-income energy consumers in the state.

In 2002, Rhode Island received approximately \$11.5 million through the U.S. Department of Health and Human Services Low Income Home Energy Assistance Program (LIHEAP). This payment assistance program benefits households with incomes of up to 60% of the state median household income level. LIHEAP appropriations are supplemented by Narragansett ratepayers with funding of about \$3.4 million annually, and New England Gas ratepayer funding of about \$1.5 million per year. This utility funding is used to discount the rate that is paid by participating LIHEAP-eligible customers. In addition, Rhode Island received approximately \$1.1 million in U.S. Department of Energy Weatherization Assistance program funding for FY 2002, which was supplemented by about \$1 million from electric company ratepayers and \$200,000 from gas utility ratepayers. Rhode Island program administrators operate payment assistance and energy efficiency programs in a coordinated manner. Administrators ensure that those who receive payment assistance are encouraged to obtain efficiency services as well.

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### **2002 Pre-Existing Low Income Program Funding**

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<u>Program</u>	<u>Source</u>	<u>Purpose</u>	<u>Funding (\$)</u>
Low Income Home Energy Assistance Program	US Dept. of H.H.S.	Energy Bill payment Assistance	11,539,000
Electric Utility Discount	Utility Ratepayers	Electric Bill Payment Assistance	3,400,000
Gas Utility Discount	Utility Ratepayers	Gas Bill payment Assistance	1,500,000
Total			15,539,000

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Despite the demise of the early PIPP Program, many of the state's energy affordability programs have been in existence for nearly two decades. The program delivery network is highly skilled and experienced, and a good working relationship exists between utility companies, state administrators, and local delivery agencies (as evidenced by the progress to date of the Working Group in creating the present Plan). While existing utility discount programs help to reduce low-income energy burdens, they do not target benefit levels to those households with the greatest need for assistance. However, the existing program structure does provide a strong funding base for launching new program designs.

#### DISCOUNT PROGRAM ELEMENTS AND DELINEATION OF RESPONSIBILITIES

At the heart of our long-term arrearage management proposal is a set of targeted discount rate programs that are designed to provide LIHEAP participants with the opportunity to lower energy burdens to an affordable level. Working Group members agreed that reduction of low-income arrears without addressing ongoing low-income energy affordability problems would merely result in the eventual recurrence of arrearage buildup. Thus, in order to develop a plan to provide *long-term* arrearage management solutions, we have attempted to treat arrearage management and ongoing payment assistance in a comprehensive manner.

The program design broadly outlined here are the result of many hours of technical sessions and discussions between Working Group members. Originally, the State Energy Office and NCLC proposed that the Working Group endorse a plan that included a fixed credit PIPP, similar to the one previously operative in Rhode Island. However, the utility companies participating in the Working Group, and to an extent, the CAA's, raised concerns about the high costs and complicated nature of administering such programs. As a result of these concerns, we have attempted to develop a program design that effectively balances affordability and targeted assistance objectives with concerns about administrative costs.

Targeted discounts are similar to PIPPs in that both models are designed to provide a bill reduction that is geared toward the income and consumption circumstances of the individual participating household. In both cases, an affordable payment is calculated using the concept of a “target energy burden.” The programs as proposed would lower participant household energy burdens to “affordable” levels of 7% for natural gas heat customers, and 6% for electric heat customers.<sup>4</sup> As indicated previously, the targeted rate discounts and arrearage write-down provisions contemplated in this plan would be delivered to electric and natural gas customers of regulated utility companies, who are also participants of the state’s LIHEAP program. Discount rate and arrearage management program income eligibility guidelines would mirror those that apply in any given year to LIHEAP. In the event that available program funds become fully committed in any given program year, income eligible applicants would be placed on a statewide waiting list maintained by the State Energy Office. The waiting list would be prioritized according to a “first come-first served” basis.

For participating natural gas and electric heat customers, the difference between customer expenditures at the target energy burden levels noted above and non-discounted expenditures would come from application of federal LIHEAP monies and proceeds from other sources. In the event of either a diminution of federal LIHEAP funding for Rhode Island, or a reduction of the proceeds from other sources, the Working Group recommends that the number of program participants be reduced rather than increasing the target energy burden of participating households to an unaffordable level.

The new programs would be administered by regulated electric and natural gas utilities and the same state and local agencies that currently deliver LIHEAP. In addition, the Rhode Island Public Utilities Commission would have responsibility for approval of program design and funding mechanisms, and for review and approval of fiscal and program reconciliation reports.

The Community Action Agencies that are currently responsible for local operation of LIHEAP would be responsible for the daily operation of the targeted discount and arrearage management programs. These operational activities would include marketing, outreach, intake, education, certification, recertification, and determination of discount rate level.

The application process for the new program will be substantially similar to the low income program recently implemented in New Hampshire by Narragansett Electric’s affiliate, Granite State Electric Company, under New Hampshire’s recently enacted low-income electric assistance program. The application process for the new program would be administered by the local CAAs. Potential participants in the program would, on an annual basis, complete the required application including income and pre-program arrears information. The local CAAs would then assign customers to the appropriate discount rate category and identify whether or

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<sup>4</sup> Target energy burden levels proposed in this plan are intended to make paying for basic utility service more manageable in low-income households. Energy burdens of 6% to 7%, while considerably higher than those borne by middle and higher income households (median income Rhode Island Household Energy Burden is about 3.5%).

not the customer is eligible for arrears forgiveness. The CAAs would provide this information to the State Energy Office which in turn would transmit this data electronically to the utility companies. Electronic enrollment data from the State Energy Office would be transmitted regularly in a mutually agreed upon format. The utilities authorization to enroll a customer would be the Energy Office's electronic transmission. The utility would then enroll the customer into the program effective on the customer's next scheduled meter read date and any arrears authorized for forgiveness would be forgiven at that time. From enrollment, the customer would receive their authorized discount for a period of 12 consecutive months. The State Energy Office would notify the utility to drop any customer not re-approved for an additional 12 months. This drop notification would be received by the utility within 15 days following the customer's final discounted bill. This process would be necessary to allow for the movement of customers to different rates in the event that they no longer qualify for the program. Customers would not be placed on the program retroactively, nor would any retroactive billing adjustments be made due to processing delays, administrative problems or failure to reapply and be approved for the program prior to the anniversary date of initial enrollment.

The new program would be designed to include up to 16 discount "tiers" within the applicable residential rate, thereby tailoring a level of discount on the customer's bill so that the total bill is within the each customer's affordable energy burden level. A rolling twelve (12) month enrollment period as proposed above, while it requires that the proposed program's funding not be tied directly to a fixed LIHEAP year, eliminates the confusion, administrative burden and potential equity issues potentially created by a fixed enrollment period model. For example, if a large percentage of participants were approved for the new program late in the LIHEAP year due to an increase in LIHEAP funding, the proposed 16 tier discount process would become unworkable under a fixed enrollment period model, resulting in a situation where the utility would need to pro-rate and/or recalculate customer billings to ensure that an individualized benefit for each customer is received on a retrospective basis. The utility would not be assigning a customer to a particular discount tier but rather calculating an individualized discount tier based on the point in time a customer is approved in the given LIHEAP year. Such a process could potentially result in a significant credit balance on the customer's bill. In addition, the prospective discount period for each customer would also have to be individually tailored. A prospective rolling 12 month enrollment process, on the other hand, would permit the utilities to program their respective billing functions to provide customer discounts at significantly less administrative cost. If it is necessary that a fixed LIHEAP year become the basis for the new program, it would be significantly less expensive for the utilities, from an administrative standpoint, to grant a single, lump-sum credit to each customer based on the total approved maximum benefit, rather than to try to employ any kind of tier billing discount.

The State Energy Office would serve as "Lead Agency" or "Program Administrator" for the new program. As such, the State Energy Office would be responsible for internal management and daily administrative functions, including monitoring of the local CAAs. The State Energy Office, in conjunction with the utilities, would maintain fiscal records, including those necessary for reconciliation of differences between amounts utilities take in and program expenditures.

Customers participating in the planned discount and arrearage management programs would be responsible for providing information necessary for income certification, and for paying their discounted utility bills on time. Program participants would also be encouraged to obtain any energy efficiency and education services that may be offered by CAAs, utility companies or the State Energy Office. Participating customers who do not pay their discounted bills in full and on time would be subject to the same credit and collection activities and policies that would otherwise apply.

#### ARREARAGE FORGIVENESS

Arrearage management, sometimes referred to as “arrearage forgiveness,” refers to programming designed to reduce and retire the arrears of participating customers that had accrued prior to the onset of the program or some other previously specified date. These arrears are sometimes referred to as “pre-program arrears.” Arrearage management is an integral component of long-term low-income energy security. Payment assistance programs that do not include effective arrearage management are unsuccessful in that they tend to stack an arrears payoff component on top of a regular monthly payment and in the process return the customer to a situation where the total cost of utility service is unaffordable. Arrearage management in combination with payment assistance is the only means of breaking the recurring cycle of non-payment, crafting of a payment plan, and non-payment.

Arrearage management can either involve a *quid pro quo*, where successful completion of a forgiveness program requires meeting certain regular bill payment requirements, or it may entail a one-time “cleaning of the slate,” where arrears of participating customers are simply written off at the outset of the program. The former model provides an incentive for customers to remain current on payments going forward, and in theory, changes participant payment behavior. The latter, one-time slate-cleaning model does not provide such an incentive, but does forego carrying charges and the administrative costs of tracking customer payments and balance reductions. Both Narragansett Electric and New England Gas Company have indicated that they support the one-time arrears forgiveness model in order to eliminate the administrative complexities and costs associated with a gradual write-down of arrears.